Department of Finance Canada

Memo to Deputy Minister

DMO (Original + 4)
Assoc. DM & G7 Deputy (1)
EFP (e-copy)
C&C (e-copy)
Law (e-copy)
Sr. ADM - Tax Policy (8)

MEMORANDUM NOTE DE SERVICE

Security classification Classification de sécurité
SECRET
Originator Auteur
Christopher Heggtveit/Elizabeth Cook/Jessica Nasrallah
Our file Notre référence
TPB 2000-001
Your file Votre référence
2017FIN464914
Date
NOV 15 2017

TO À: Paul Rochon

FROM DE: Andrew Marsland
Pamela Aung-Thin

SUBJECT OBJET: **Processing email submissions related to the consultation on tax planning using private corporations**

For information. This note describes the Department's proposed process for processing email submissions related to the consultation on tax planning using private corporations.

Issue

The Department of Finance consultation on tax planning using private corporations ended on October 2, 2017. The Department's consultation inbox received over 21,000 e-mail submissions[1]. In addition to the emails received through the consultation mailbox, over 10,000 related items of correspondence to the Minister of Finance were received by the Department.

[redacted]

Background

The Tax Policy Branch has been actively sorting through submissions in order to segregate those containing substantive policy comments for further analysis by those involved in policy development. [redacted]

s.21(1)(a)
s.21(1)(b)

ADMs: Andrew Marsland (369-3739) Pamela Aung-Thin (369-3212)
Director General: Maude Lavoie (369-3805)

Canada

[redacted]

As expected, the consultation mostly attracted submissions from taxpayers that would be affected by the proposed tax changes. [redacted] The most common criticisms include:

- Comparing the tax burdens of entrepreneurs to that of employees is not a fair comparison, as employees may enjoy non-salary benefits or greater job security as compared to small business owners;
- The consultation period was too short;
- The proposals will hurt small and medium-sized businesses;
- The proposed changes will have retroactive implications, especially for those that have planned their retirement on the basis of current rules;
- Spouses should be entitled to income splitting from private corporations as they make significant direct or indirect contributions to small businesses; and
- Farmers have been busy with the harvest season and therefore have not had sufficient time to consider or comment on the proposed changes.

Although a significant number of submissions have been processed, the vast majority are form letters that require little time to process. [redacted]

[redacted]

s.21(1)(a)

s.21(1)(b)

Pages 3 to / à 5

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21(1)(a), 21(1)(b)

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Department of Finance Canada | Ministère des Finances Canada

For Signature by / Information of À signer par / Pour l'information de Deputy Minister	
Prepared by (name/initials/division) Préparé par (nom/initiales/division) Christopher Heggtveit / Elizabeth Cook / Jessica Nasrallah	
In consultation with (name/initials/branch(es)/division(s)) En consultation avec (nom/initiales/direction(s)/division(s)) Don Wilson / Yves Poirier	
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Associate Deputy Minister & G7 Deputy for Canada Sous-ministre délégué et représentant du Canada au G7	Rob Stewart
Associate Deputy Minister Sous-ministre délégué	
Deputy Minister Sous-ministre	Paul Rochon
Remarks: Remarques:	
File no. No de dossier 2017FIN464914	Date NOV 15 2017

Associate Deputy Minister & G7 Deputy for Canada Sous-ministre délégué et représentant du Canada au G7	**(Sign on behalf of DM) (Signer au nom du SM)**	☐
Associate Deputy Minister Sous-ministre délégué	**(Sign on behalf of DM) (Signer au nom du SM)**	☐
Assistant Deputy Minister Sous-ministre adjoint	**(Sign on behalf of DM) (Signer au nom du SM)**	☐

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MEMORANDUM NOTE DE SERVICE

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Carl Gaudreault
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NOV 0 9 2017

Memo to the Minister or Minister's Staff

Min's Office .... Orig. + 6
DMO 4
Assoc. DM & G7 Deputy 1
EFP .... e-copy
C&C .... e-copy
LAW .... e-copy

TO / À: Minister of Finance

FROM / DE: Paul Rochon

SUBJECT / OBJET: **Economic Impacts of Increasing Immigration Levels**

For information only.

Issue

At the request of your office, please find below the estimated economic impacts of increasing immigration levels in Canada.

Overview

Historically, Canada has relied on immigrants as a source of population and economic growth. With no immigration, Canada's population growth would have been only 0.3 per cent per year since 2001, instead of the observed 1.1 per cent average annual growth.

This note assesses the economic impacts of increasing immigration levels according to the multi-year immigration strategy recently tabled by the Government. Under this strategy, the number of immigrants is projected to climb to 310,000 in 2018, up from the targeted 300,000 this year. That number is projected to rise to 330,000 in 2019 then to 340,000 in 2020. For the purpose of this note, we assume that the level of immigration continues to rise by 10,000 per year through 2030.[1]

[redacted]

[1] Over the last fourteen months, we have shared estimated medium-term economic impacts of various immigration increase scenarios with Immigration, Refugees and Citizenship Canada (IRCC).

ADM: Nick Leswick, 369-3346
Director: Phil King, 369-5609

Canada

s.21(1)(a)

[redacted]

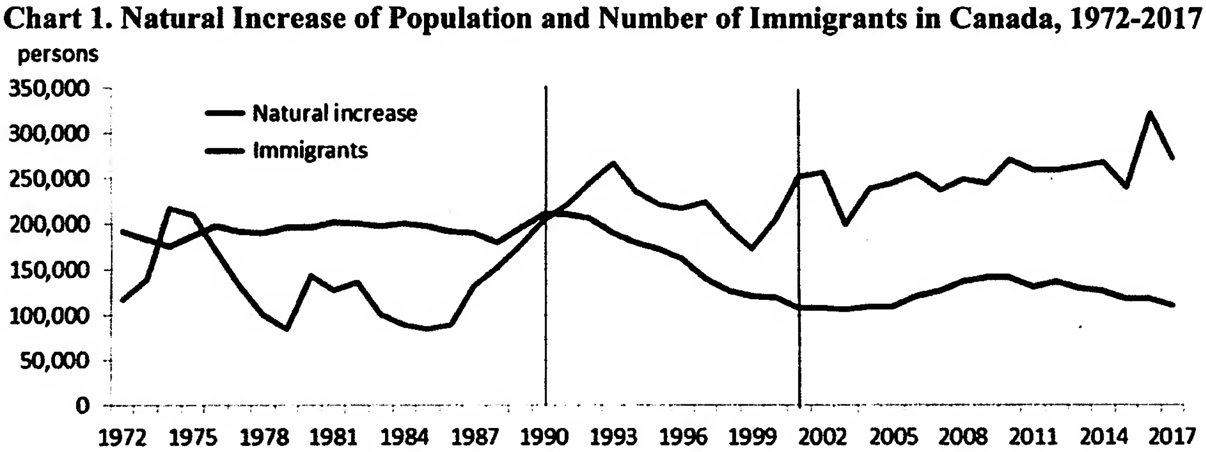
Economic impacts of immigration depend crucially on the breakdown of new immigrants among immigration streams (economic immigrants, family reunion, and humanitarian). [redacted]

Background

Recent Trends in Immigration in Canada

During the 1990s, the natural rate of increase (births minus deaths) of the population gradually fell in Canada to reach about 125,000 persons per year on average. This compared to more than 192,000 per year on average in the 1970s and 1980s (Chart 1). At the same time, the number of immigrants has increased to close to 254,000 persons per year on average since 2001, compared to about 133,000 persons per year in the 1970s and 1980s.

Chart 1. Natural Increase of Population and Number of Immigrants in Canada, 1972-2017

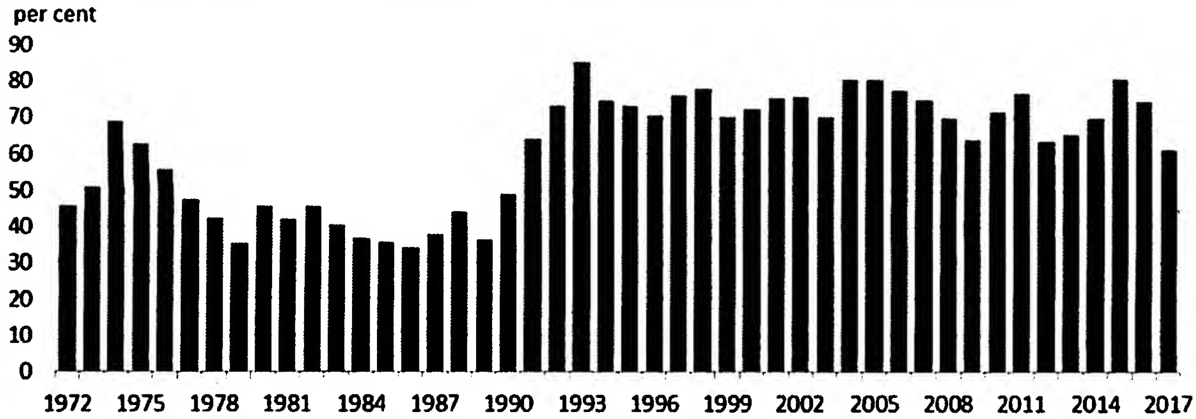


Sources: Statistics Canada, Department of Finance calculations.
Note: Natural increase is calculated as births minus deaths.

As a result, immigration has accounted for about 73 per cent of total population growth since the early 1990s, compared to just 45 per cent in the 1970s and 1980s (Chart 2). Without this rise in immigration (i.e. assuming the average immigration rates of the 1970s and 1980s prevailed), the Canadian population would have grown by 0.8 per cent per year on average since 2001, rather than the 1.1 per cent recorded. Without any immigration at all, Canada's population would have grown by only 0.3 per cent per year since 2001.

s.21(1)(a)

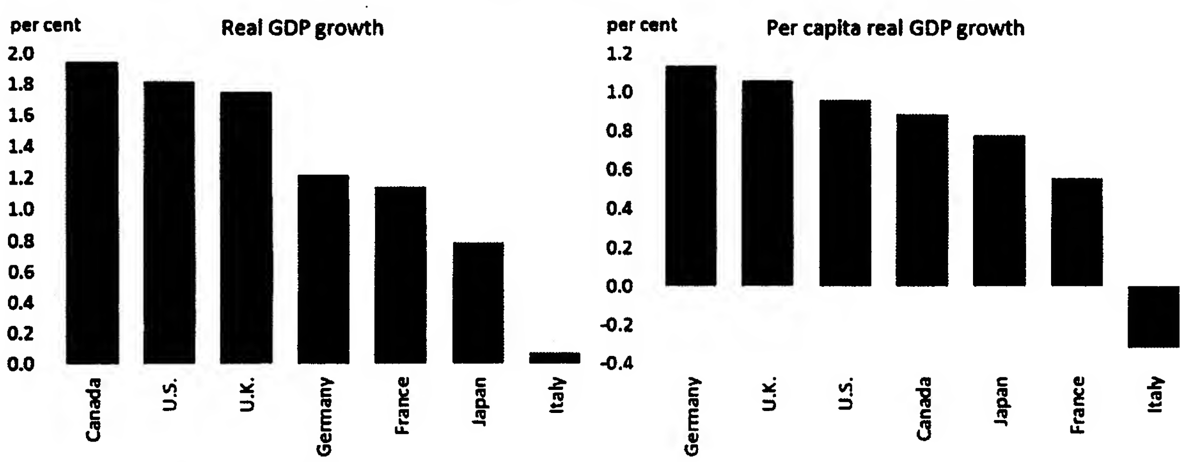
Chart 2. Contribution of Immigration to Total Population Increase, 1972-2017



Sources: Statistics Canada, Department of Finance calculations.

While increased immigration has helped Canada to be the leader in terms of headline economic growth among the G7 countries, the resulting population growth has lowered GDP per capita growth, as new immigrants initially have lower employment rates and incomes. Stronger population growth drives housing, consumption and government spending, which raises real GDP. Controlling for population changes effectively leaves investment and productivity as the remaining drivers of GDP growth, and on this basis Canada fares less well (Chart 3).

Chart 3. Total and Per Capita Real GDP Growth in G7 Countries, 2001-2016



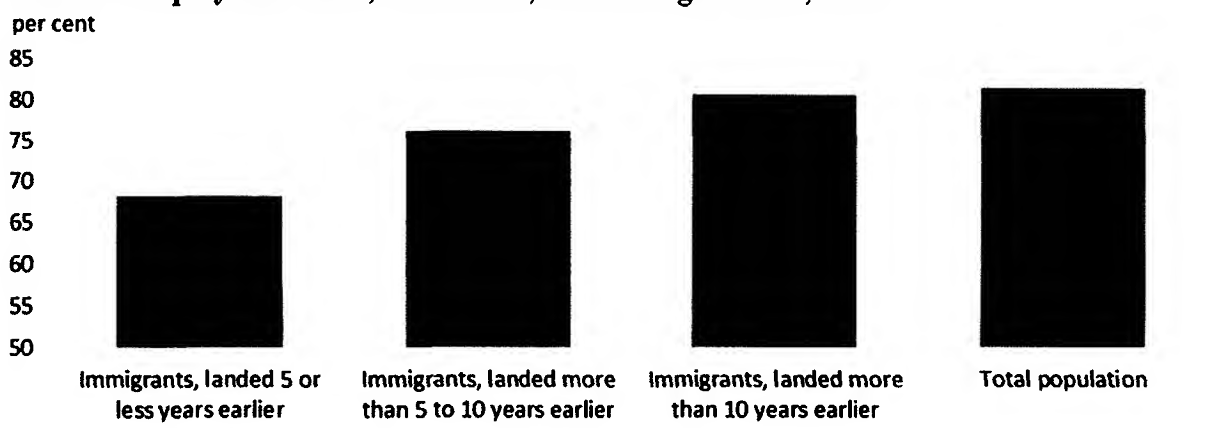
Sources: International Monetary Fund, Department of Finance calculations.

Immigrants Labour Market Characteristics

As alluded to above, while immigration contributes to total economic growth in Canada, data show that new immigrants have a more difficult time actively participating in the labour force than the overall population. New immigrants have, on average, both lower employment rates and lower employment income than the overall population. However, over time, these characteristics converge towards the national average.

Chart 4 shows that new prime-age immigrants (i.e. aged 25 to 54 who landed within 5 years) had an employment rate of about 68 per cent in 2016, 13 percentage points lower than for the total population (81 per cent). However, labour market attachment improves over time, with the employment rate of immigrants who landed 10 years or more earlier being very similar to the Canadian average. These patterns of improvement have been quite stable over the past 10 years for which data are available.

Chart 4. Employment Rate, Both Sexes, Persons Aged 25-54, 2016



Source: Statistics Canada.

In terms of employment income, data also show discrepancies between new immigrants and the Canadian average, as well as a gradual convergence towards the national average over time (Chart 5). The principal applicants of the economic immigrant stream[2] have employment income, once they find work, that is similar to the Canadian average immediately upon arrival. Thereafter, their income surpasses the Canadian average and continues to rise above it over time. All other categories of immigrants have employment income of about 40 per cent of the national average upon arrival. This converges to about 75 per cent after 15 years from landing. On average across all immigrant categories, income is about 60 per cent of the national average upon arrival but catches up to the average in about 13 years.

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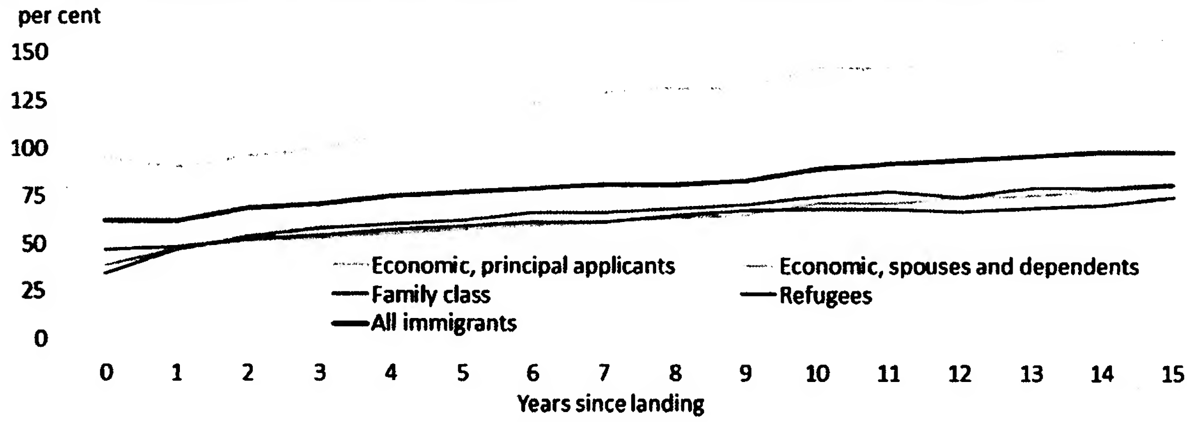
[2] Immigration in Canada can be divided into three broad categories: Economic (principal applicants and dependents, Family Class, and Refugees/Humanitarian (see Annex for a description of each stream).

Chart 5. Immigrant Employment Income as a Share of Canadian Average, 2014



Sources: Statistics Canada, Department of Finance calculations.

Economic Impacts of Increased Immigration Levels

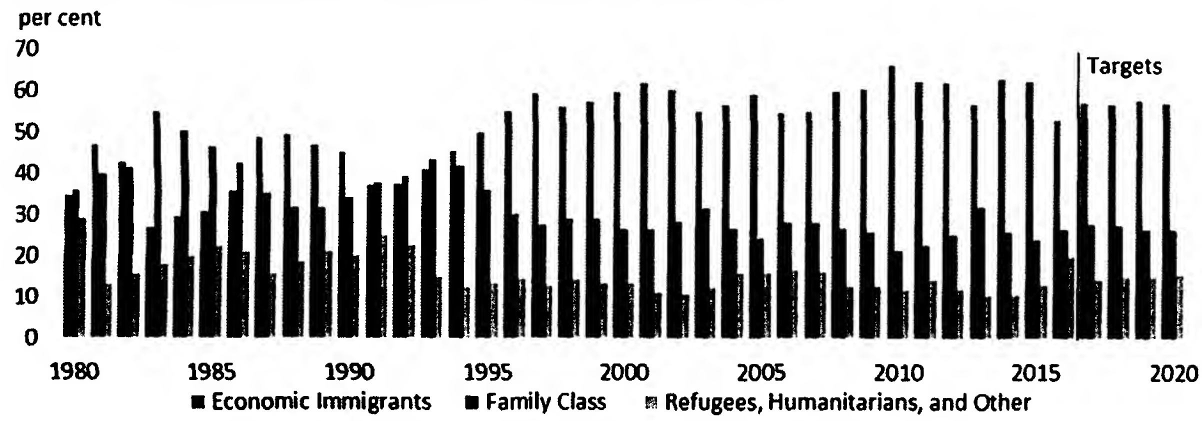
In our simulation, immigration levels are increased according to the multi-year immigration strategy recently tabled by the Government, in which the number of immigrants is projected to climb to 310,000 in 2018, up from the targeted 300,000 this year. That number is projected to rise to 330,000 in 2019 then to 340,000 in 2020. For this note we extend the simulation to 2030 by continuing to raise immigration levels by 10,000 per year. In addition, our simulation uses the breakdown among immigrant streams established in the Government's multi-year immigration strategy (Table 1). Chart 6 shows that targets by immigration class as a share of total immigration are comparable to recent history.

Table 1. Government's Multi-Year Strategy for Increased Immigration (annual increment, persons)

	2018	2019	2020	2021+
Economic Programs	5,000	14,100	4,200	4,200
of which, principal applicants	*2,000*	*5,640*	*1,680*	*1,680*
Family Class Programs	2,000	2,500	2,500	2,500
Humanitarian/Refugees	3,000	3,400	3,300	3,300
Total	**10,000**	**20,000**	**10,000**	**10,000**

Source: Immigration, Refugees and Citizenship Canada.

Chart 6. Immigrants by Immigration Class, Share of Total



Sources: Immigration, Refugees and Citizenship Canada; Department of Finance calculations.

In our simulation, assumed employment and wage rates for each immigrant class are consistent with the historical norms described above. [redacted]

As discussed above, the economic impacts of immigration largely depend on the breakdown of new immigrants among immigration streams. [redacted]

s.21(1)(a)

[redacted]

[redacted]

The Conference Board of Canada has recently published an assessment of the economic impacts of higher immigration in Canada. [redacted]

s.21(1)(a)

Annex – Description of the Three Broad Categories of Immigration in Canada

- Economic immigrants (principal applicants) are selected on the basis of their human capital characteristics (e.g., age, education, ability to speak English or French) that suggest they would integrate successfully into the Canadian labour market. The economic category includes the spouses and dependents of principal applicants (kids).
- The Family Class stream supports the reunification of families and allows Canadian citizens or permanent residents to sponsor a family member (i.e., spouse, dependent, parent or grandparent) to immigrate to Canada as a permanent resident. These applicants are not selected based on their ability to support the labour market.
- Humanitarian includes refugees and other individuals who are not eligible in any other categories but may be admissible on humanitarian and compassionate grounds.

Memo to the Minister or Minister's Staff

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Department of Finance Canada

MEMORANDUM NOTE DE SERVICE

Security classification Classification de sécurité

SECRET

Originator Auteur

Jennifer Simms

Our file Notre référence

[redacted]

Your file Votre référence

2017FIN461210

Date

NOV 0 2 2017

TO
À Minister of Finance

FROM
DE for Paul Rochon

SUBJECT
OBJET **Next Steps for the National Housing Strategy**

For information.

Issue

[redacted]

Background

Budget 2017 announced a new NHS, providing more than $11.2 billion over 11 years for a range of initiatives designed to build, renew and repair Canada's stock of affordable housing (see Annex A – NHS measures). [redacted]

Additional Components of the National Housing Strategy

[redacted]

ADM: Michelle Kovacevic (613) 369-9572
Director: Roger Charland (613) 369-3887

Canada

s.16(2)(c)

s.21(1)(a)

s.69(1)(g) re: (a)

s.69(1)(g) re: (c)

s.69(1)(g) re: (d)

s.69(1)(g) re: (e)

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69(1)(g) re: (a), 69(1)(g) re: (c)

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Considerations

[redacted]

As part of federal consultations on the development of a National Housing Strategy, CMHC has indicated that there was broad support that low-income households may benefit from demand-side measures, such as portable housing allowances, that permit more options and flexibility to take advantage of employment, educational and other life enhancing opportunities. It is expected that Indigenous Peoples, municipalities, the National Housing Collaborative, the Canadian Housing and Renewal Association, Front d'action populaire en réaménagement, the Co-operative Housing Foundation would support a Canada Housing Benefit. [redacted]

The current Investment in Affordable Housing federal initiative partly funds jurisdictions to provide needs-based social income support programs and measures, including monthly shelter allowances geared to the needs of their local housing markets. All PTs have housing allowance programs except Newfoundland, Northwest Territories and Nunavut. Moreover, there are jurisdictions with targeted portable housing programs already, for example, British Columbia has a Shelter Aid for Elderly Renters providing monthly cash payments to subsidize rents for eligible residents age 60 or over.

s.14(a)

s.21(1)(a)

s.69(1)(g) re: (a)

s.69(1)(g) re: (d)

s.69(1)(g) re: (e)

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[redacted]

Next Steps

[redacted]

The launch of the Government's NHS is anticipated in time for National Housing Day taking place on November 22. We understand that CMHC is planning to release a public policy document for this date.

[redacted]

s.21(1)(a)

s.69(1)(g) re: (a)

s.69(1)(g) re: (c)

Annex A

NATIONAL HOUSING STRATEGY MEASURES

Total NHS funding committed in Budget 2017 was more than $11.2 billion over 11 years.

- $2.1 billion for renewed and expanded federal investments to combat and prevent homelessness through the Homelessness Partnering Strategy.
- $3.2 billion for a renewed partnership between the Government and provinces and territories to better support key housing priorities.
- $5 billion for a National Housing Fund to address critical housing issues, and better support vulnerable citizens. This will include funds for a range of measures to promote housing partnerships and innovation in the housing sector, direct lending for new rental housing supply and renewal, and to preserve the affordability of social housing.
- $300 million in targeted support for northern housing.
- $225 million in targeted housing support for Indigenous Peoples not living on-reserve.
- $202 million to make more federal lands available for the development of affordable housing.
- $241 million in expanded funding to strengthen CMHC's housing research activities.

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69(1)(g) re: (d), 69(1)(g) re: (e)

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69(1)(g) re: (a)

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Department of Finance Canada | Ministère des Finances Canada

For Signature by / Information of À signer par / Pour l'information de Minister of Finance	
Prepared by (name/initials/division) Préparé par (nom/initiales/division) Jennifer Simms	
In consultation with (name/initials/branch(es)/division(s)) En consultation avec (nom/initiales/direction(s)/division(s)) Andrea Howard David Le Drew (FSP) DLD	
Approved by Approuvé par	
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General director Directeur général	Glenn Purves
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Associate Deputy Minister & G7 Deputy for Canada Sous-ministre délégué et représentant du Canada au G7	Rob Stewart
Associate Deputy Minister Sous-ministre déléguée	
Deputy Minister Sous-ministre	Paul Rochon
Remarks Remarques:	
File no. No de dossier 2017FIN461210	Date OCT 16 2017

Associate Deputy Minister & G7 Deputy for Canada **Sous-ministre délégué et représentant du Canada au G7**	**(Sign on behalf of DM)** **(Signer au nom du SM)**	☐
Associate Deputy Minister **Sous-ministre déléguée**	**(Sign on behalf of DM)** **(Signer au nom du SM)**	☐
Assistant Deputy Minister **Sous-ministre adjoint(e)**	**(Sign on behalf of DM)** **(Signer au nom du SM)**	☐

Department of Finance Canada — Ministère des Finances Canada

MEMORANDUM — NOTE DE SERVICE

Memo to Deputy Minister

DMO .... Orig. + 4
Assoc. DM & G7 Deputy 1
EFP .... e-copy
C&C .... e-copy
LAW .... e-copy

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Originator / Auteur	Sara Barnes / David LeDrew
Our file / Notre référence	
Your file / Votre référence	2017FIN463952
Date	NOV 0 1 2017

TO / À: Paul Rochon

FROM / DE: Leah Anderson

SUBJECT / OBJET: **Canada Mortgage and Housing Corporation (CMHC) Board of Directors Meeting, November 3, Toronto, Ontario**

For information in advance of the November 3 CMHC Board of Directors (the "Board") meeting. The main body of the note addresses items that we judge as most important. The annex covers the rest in the order of the agenda. The Board documents have been provided electronically.

Board of Directors Meeting – November 3, 10:30 a.m. to 1:35 p.m.

[redacted]

ADM: FSP - Leah Anderson (369-3620)
Director: FSP - Elisha Ram (369-3968)

s.20(1)(b)
s.21(1)(a)
s.21(1)(b)

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[redacted]

No Motion. CMHC is under pressure to finalize the National Housing Strategy (NHS), including specific measures that could be part of an announcement by National Housing Day on November 22. [redacted]

s.69(1)(g) re: (d)

s.20(1)(b)

s.21(1)(a)

s.21(1)(b)

[redacted]

For Approval. CMHC recommends that the Board Directors approve a [redacted] dividend of [redacted] based on the Q3 2017 results, to be paid to the Government by 31 December, 2017.

[redacted]

[redacted]

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Annex

Board of Directors Meeting – November 3, 10:30 a.m. to 1:35 p.m.

Report of the President .... TAB 3

Verbal update.

CMHC Strategy .... TAB 3.1

[redacted]

National Housing Strategy Update and Implementation Plan ....TAB 4

No Motion. CMHC will provide a readiness assessment for the delivery of the NHS.

Following the Budget 2017 announcement of more than $11.2 billion over 11 years for a new National Housing Strategy, which re-establishes the federal role in housing, CMHC has been working towards a launch of the Strategy, anticipated in November.

[redacted]

Housing Market and Credit Trends .... TAB 5

No Motion. CMHC will provide an update on the national housing market and credit trends.

Recent Trends

[redacted]

Recent credit market trends indicate that mortgage lending activity dropped 9.3 per cent in the first half of 2017. The largest drops were felt in Vancouver, Edmonton, and Calgary. However, the average value of these loans increased in cities such as Toronto and Hamilton.

Despite Canadian mortgage holders' rising debt loads, delinquency rates declined in the first half of 2017 in most of the country, though they continue to rise in the prairies.

Mortgage Loan Insurance Business Trends

[redacted]

Update - Future Initiatives Supporting the NHS

No Motion. See above, in main body of the note.

[redacted]

s.20(1)(b)
s.21(1)(a)
s.21(1)(b)

[redacted]

Corporate Plan Update .... TAB 7

[redacted]

Dividend Recommendation .... TAB 8.1

For Approval. See above, in main body of the note.

Dynamic Capital Assessment Test (DCAT)... TAB 8.2

[redacted]

s.20(1)(b)

s.21(1)(a)

s.21(1)(b)

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Report of the Chair of the Human Resources Committee................................ TAB 11

Verbal update.

Career Framework Update .... TAB 11.1

[redacted]

Report of the Chair of the Corporate Governance and Nominating Committee ... TAB 12

No Motion. Verbal update.

Approval of Motions related to Consent Agenda Items .... TAB 13

For Approval.

Minutes of the Previous Board Meeting

- ***We recommend that the Minutes of the Board of Directors meeting held on 24 August, 2017 be approved.***

Update to Board Resolutions

[redacted]

s.20(1)(b)
s.21(1)(a)
s.21(1)(b)

[redacted]

<u>Lender Risk Sharing Update to the Board</u>

While not part of the Board material, we understand that the Chair has asked Mr. Siddall to provide an update on lender risk sharing.

In October 2016, the Department of Finance released a consultation paper on lender risk sharing (LRS), proposing that lenders share in the default risk for government-backed insured mortgages. The Department has asked the Big Six banks to complete a quantitative exercise to be completed by the Big Six banks that asks them to provide detailed analysis on how they will capitalize, price, and adjust their risk appetite under LRS. A modified exercise for smaller lenders will follow in the coming months.

No decision on lender risk sharing has been made by the Government.

s.20(1)(b)

s.21(1)(a)

s.21(1)(b)

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For Signature by / Information of À signer par / Pour l'information de Deputy Minister	
Prepared by (name/initials/division) Préparé par (nom/initiales/division) Sara Barnes SB /David LeDrew DLD	
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Approved by Approuvé par	
Director Directeur	Elisha Ram ER
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General Director Directeur général	Annette Ryan
Assistant Deputy Minister Sous-ministre adjoint	Leah Anderson LA
Associate Deputy Minister & G7 Deputy for Canada Sous-ministre délégué et représentant du Canada au G7	Rob Stewart
Associate Deputy Minister Sous-ministre déléguée	
Deputy Minister Sous-ministre	Paul Rochon
Remarks Remarques: **CMHC Board Meeting**	
2017fin463952	Date

Associate Deputy Minister & G7 Deputy for Canada **Sous-ministre délégué et représentant du Canada au G7**	**(Sign on behalf of DM)** **(Signer au nom du SM)**	☐
Associate Deputy Minister **Sous-ministre déléguée**	**(Sign on behalf of DM)** **(Signer au nom du SM)**	☐
Assistant Deputy Minister **Sous-ministre adjoint(e)**	**(Sign on behalf of DM)** **(Signer au nom du SM)**	☐